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USSR-CHINA: Prospects for Talks

Soviet officials say confidence-building measures and troop reductions will be discussed at the second round of Sino-Soviet talks in early March, but China continues to play down prospects for progress.

Soviet Deputy Foreign Minister Kapitsa emphasized the importance of measures such as information exchanges on military maneuvers in the border region.

troop reductions, possibly involving 100,000 to 150,000 men, would be discussed in March. Kapitsa, however, said any future discussion of troop reductions has to take into account the presence of US troops in Japan and Korea.

In contrast, a Chinese Foreign Ministry official told the US Embassy he sees no chance for either a cultural or scientific agreement and that there will be no negotiations this year on the territorial dispute. Instead, China will press the Soviets to reduce their border forces to 16 or 17 divisions, the level of 1964. On the other hand, the Chinese responded to a recent Soviet commentary calling for territorial talks--and blaming Beijing for lack of progress--by claiming China's position is unchanged and a solution is still possible.

Comment: Kapitsa's remarks indicate the USSR may want to establish confidence-building measures before negotiating mutual troop reductions. There have been no other signs Moscow is thinking of reductions as high as 100,000, but it presumably would seek major concessions from Beijing if such cuts were proposed.

In their remarks to US officials, the Chinese presumably are minimizing prospects for progress to avoid appearing to play the Soviet card before Secretary of State Shultz's visit. Nonetheless, they do not want to imply that Sino-Soviet talks may founder over Moscow's effort to reopen the territorial issue--which was not addressed during the first round of talks last year. Thus, China's response to the Soviet article on territorial claims probably is an effort to undercut arguments that Beijing is not really prepared for significant movement toward better relations.

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WEST GERMANY: Strauss on INF

The attack by Christian Social Union chairman Strauss on the zero option probably was not designed to undercut the government on INF modernization but to make West Germans face the likelihood that some missiles would have to be deployed later this year. [redacted]

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Strauss claimed this weekend he has never believed the "zero solution" was an attainable goal for the INF negotiations in Geneva. According to West German press accounts, he said that this concept was an invention of the previous coalition and that the Soviets could not be expected to destroy all their intermediate-range missiles. Strauss said the Soviets might reduce the number of such missiles, however, allowing the West to restrict its rearmament accordingly. [redacted]

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Comment: Press commentary suggests Strauss is at odds with Chancellor Kohl, who supports the zero option. It also indicates Strauss endorses Foreign Minister Genscher's proposal for an interim solution, under which a reduced number of NATO missiles would be deployed in exchange for a partial reduction of Soviet missiles.

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This interpretation probably is incorrect [redacted]

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Strauss long has had doubts about the dual-track decision, but only because he places little faith in the negotiations and sees rearmament as necessary. [redacted]

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Strauss also has linked missile deployment to West German participation in NATO, which he supports unservedly. In this case, he probably was trying to sell deployment to West German voters as realistic and necessary and to avoid divorcing himself publicly from the government. The public may interpret his words as an overeagerness for deployment, however, which could cost the Christian Democrats votes in March. [redacted]

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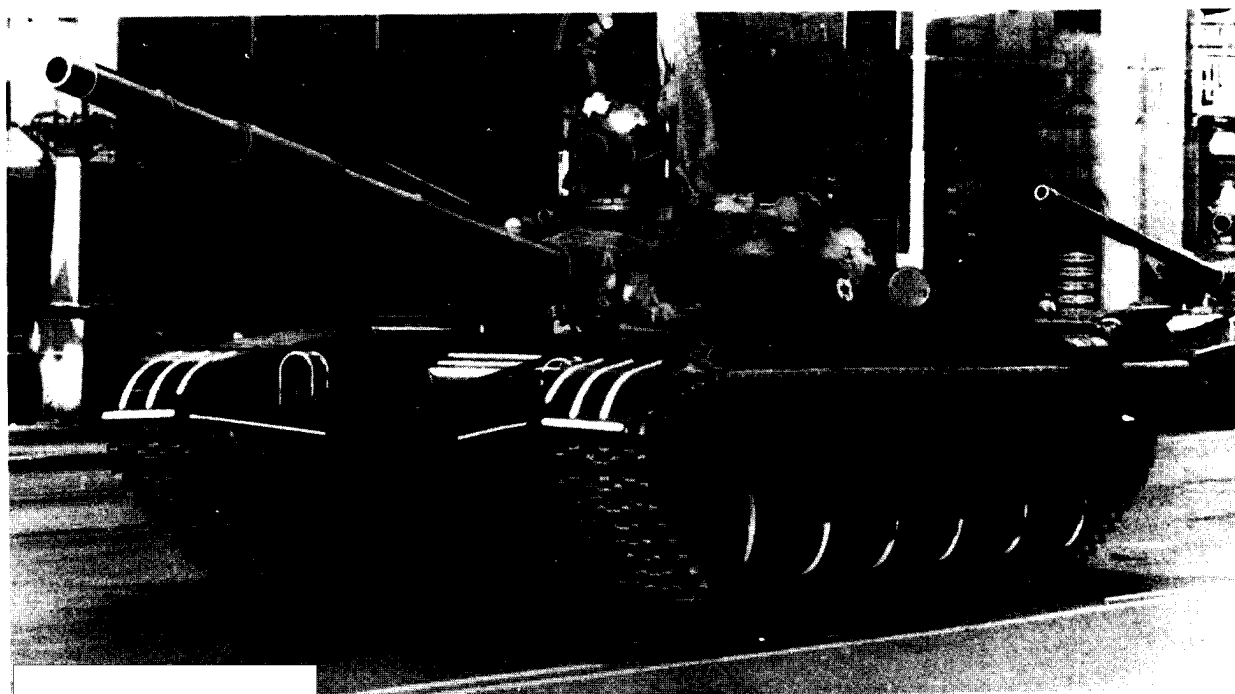
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Soviet T-80 Tank



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USSR: New Tanks in Forward Area

[redacted] the introduction of new tanks into East Germany suggest the Soviets plan to replace all their older T-55 and T-62 tanks in the forward area with new-generation tanks to match NATO's new Abrams M-1 and Leopard II tanks. [redacted]

[redacted]

Comment: The reequipping of Soviet tank forces in the forward area began in 1976-77 and appears to be progressing faster than previous modernization efforts. A changeover by the mid-1980s to T-64s and T-80s--which have substantial improvements in armor, gun caliber, fire control, and mobility--would contrast with the slower, more evolutionary changes that have characterized Soviet tank deployment programs. [redacted]

The Soviets consider the T-80 comparable to the Abrams M-1 and West German Leopard II tanks. Preliminary production evidently began in 1980. Current production levels probably would allow the Soviets to complete the modernization of their tank force in the forward area by the mid-1980s, when the NATO deployments opposite Central Europe will be completed. [redacted]

The two southernmost Soviet armies in East Germany and those in Czechoslovakia have older T-62s and are opposite US units scheduled to receive the M-1. They would be the most likely to receive the first T-80s. Soviet units in Poland have T-62s and probably will also receive the T-80. [redacted]

The Soviets consider the T-64, which is widely deployed with their other units in the forward area, to be as good as the T-72. A newer model of the T-64, currently entering the force, is considered to be more effective.

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OPEC: Meeting Fails

The OPEC ministers' lack of agreement in Geneva on oil production will put more downward pressure on prices as buyers further delay purchases in anticipation of a drop. The ministers adjourned yesterday when opposition to Saudi demands for adjustments in prices caused the tentative agreement on production shares to collapse. OPEC President Dikko, who is from Nigeria, announced that Arab members from the Persian Gulf made their support for a new quota system conditional on an increase in the price of high-quality African crudes. Dikko claims the cartel agreed on a new production ceiling of 17.5 million barrels per day, but Saudi Oil Minister Yamani calls the meeting a complete failure. [redacted]

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Comment: In the absence of production quotas or price cuts, Saudi Arabia and the other Arab producers in the Persian Gulf will bear the brunt of a further decline in sales. These producers are now more likely to cut prices as they have threatened. Such an action, however, would be a major change in policy by Riyadh, and it is not yet certain the Saudis will move quickly to take this step. [redacted]

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CHINA-US: Threats Against Imports

Chinese officials were informed on 14 January that Beijing intends to reduce imports of US grain by 1 million tons this year in response to US restrictions on textile imports. [redacted]

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Comment: This action is in line with the sanctions Beijing announced on 16 January and does not commit the Chinese to a position that would have a serious impact on Sino-US trade. China probably had already planned to reduce its grain imports from the US by at least 1 million tons as a result of recent bumper harvests and price considerations. To emphasize their unhappiness with US restrictions, the Chinese want their line on other commodity purchases to be conveyed to US officials. [redacted]

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YUGOSLAVIA: Hard Currency Restriction Lifted

The Yugoslav press reports banks in Yugoslavia have lifted the \$250 limit on withdrawals from hard currency accounts. The restriction had been imposed last October in conjunction with other foreign exchange controls. According to the US Embassy, however, only a few banks thus far have carried out the relaxation. [redacted]

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Comment: The federal government probably hopes the removal of the restriction on the approximately \$7 billion worth of deposits will lead to an increase in remittances from Yugoslav workers living in Western Europe. Remittances, which are a key source of hard currency, apparently fell off substantially following the imposition of the restriction. Yugoslav bankers probably believe depositors will have more confidence, now that a \$1.3 billion financial package with Western governments has been announced. [redacted]

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USSR: Navy Commander Nears Retirement

Fleet Admiral Gorshkov, who will be 73 next month, recently was decorated by Defense Minister Ustinov. Gorshkov has had 55 years of service, 27 as Navy Commander in Chief. *Pravda* and *Red Star* have featured photographs of Admiral Chernavin, 54, chief of the Main Naval Staff and First Deputy Commander in Chief of the Navy. Soviet naval officers have long touted Chernavin as Gorshkov's likely successor. [redacted]

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Comment: These developments suggest an impending change in naval command. Gorshkov reportedly did not retire last year only because Brezhnev intervened. Chernavin's writings offer no hint of doctrinal or program preferences that would prompt a substantial change from current policy. [redacted]

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MEXICO: Police Shakeup

A corrupt detective unit in the Federal District Police Force was abolished recently as part of President de la Madrid's inaugural promise to reduce illegal police activities. The government is considering bringing charges against some officers for abuses that reportedly include the kidnaping of wealthy citizens for the purpose of extortion. Most of the affected personnel will be transferred to other state and national security agencies. [redacted]

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Comment: Announcement of the move was designed to improve the administration's anticorruption image by drawing public attention to the abolition of the investigative unit, while playing down the transfer of the personnel to other agencies. The retention of the police on government payrolls, however, underscores the President's reluctance to reduce security forces when prospects are increasing for violence caused by austerity measures. The reorganization was announced by the Interior Ministry, [redacted]

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COLOMBIA: Amnesty Program Faltering

The majority of guerrillas have shown little inclination to lay down their arms and participate in the legal political process, two months after a broad amnesty was passed. According to the US Embassy, only 103 insurgents have accepted the pardon. Moreover, the lull in guerrilla actions since the law's enactment has ended with a new spate of attacks and kidnapings by most insurgent groups. [redacted]

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Comment: Some elements of the M-19, Colombia's second-largest guerrilla organization, have favored accepting the amnesty but now may decide to resume armed actions to protect the Movement's image. Even though the amnesty appears to be failing, it probably has helped President Betancur strengthen his political position. The general population has applauded his effort and is unlikely to blame the government for the renewed violence. On the contrary, increased counterinsurgency operations probably would receive strong public support. [redacted]

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Special Analysis

MEXICO: Labor and the New Government

President de la Madrid is off to a good start with organized labor, particularly with the progovernment Confederation of Mexican Laborers. By offering face-saving concessions to union leaders and winning their support for moderate wage hikes, de la Madrid has helped establish his image as an effective leader and has forestalled labor unrest in the near term. As the austerity program and continuing inflation begin to lower standards of living, however, dissension among workers could result in strikes and antigovernment protests.
(C)

Labor's willingness to accept an increase in minimum wages that still will be well below projected rates of inflation reflects de la Madrid's success in convincing Mexicans of the need for belt tightening. The tranquil negotiations culminated in a wage boost of 25 percent, with an additional 12 percent promised this summer. Although the increases apply only to nonunionized, unskilled workers, they will serve as a guideline for wage settlements throughout industry this year. [redacted]

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The early acceptance of the limited wage hike is likely to help persuade international lenders and business leaders that de la Madrid is committed to austerity and that he can control major domestic interest groups. The increase also will help business maintain employment levels and ease organized labor's concerns about preserving jobs. [redacted]

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The administration rewarded labor by reducing taxes on low-cost housing and medicines and by postponing plans to raise public transportation fares. The government also has announced a solidarity pact among labor, management, and government designed to control prices and assure supplies of basic foods. [redacted]

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In addition, minimum wages can now be raised more frequently than the traditional annual increase. The National Minimum Wage Commission--composed of government,

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private-sector, and labor representatives--is being allowed to meet more often during the year rather than only in December. Regional variations in minimum rates were again narrowed, as part of the movement toward a single national standard. [redacted]

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Labor's Links With Government

Leaders of the Confederation have long been an integral part of the governing process. They were willing to go along with the austerity measures because they consider themselves equal partners with the government in running the nation. [redacted]

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Officials representing the ruling party's largest and best organized sector hold many national, state, and local offices. As a result of labor's close relations with the government, union members have received higher wages and more benefits and are not predisposed to welcome opposition party overtures to alter the relationship. [redacted]

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The major trade union leader, Confederation of Mexican Laborers chief Fidel Velazquez, recently told the US Embassy he recognizes the gravity of the situation and the necessity for austerity. He believes Mexico is living beyond its means and has indicated union leaders will try to educate their members on the seriousness of Mexico's problems. [redacted]

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Independent Unions

Unions not affiliated with the ruling party represent a small minority of workers and have yet to display the strength or the inclination to force changes in the government's labor policies. The high wages, fringe benefits, and better working conditions that have been achieved discourage challenges by affiliates of the Independent Federation of Workers. The Federation is the nation's largest independent union organization and is centered in the heavily industrialized Monterrey area in northeastern Mexico, where these benefits are enjoyed. [redacted]

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Although leftist-dominated unions and labor organizations recently have tried to develop closer ties with other unions, their influence remains concentrated in electrical, telephone, and university teachers' unions. Less than 15,000 people attended a rally sponsored last fall in Mexico City by the Communist-dominated Unified Socialist Party. [redacted]

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Obstacles to Continued Support

Wage gains late in the Lopez Portillo administration and recent tax and price concessions so far have allowed Fidel Velazquez and other progovernment union leaders to keep the rank and file in line. The emphasis on job preservation rather than large wage increases has served the best interests of skilled workers, who make up the bulk of unionized labor. Skilled laborers for the most part have not lost their jobs, even though unemployment is rising nationally. [redacted]

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Despite the government's plans to reduce the impact of austerity, worker dissatisfaction probably will intensify as the government tries to reduce consumption levels. As unemployment rises, and as wages fail to keep pace with inflation--projected to be at least 70 percent this year--sporadic wildcat strikes and spontaneous anti-government demonstrations will become more likely. In such circumstances, labor leaders probably would condone a show of force by the government to restore order. [redacted]

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Union leaders, however, may push for new concessions if they believe government policies are hurting them politically. Victories by dissidents in local union elections would send a message to national leaders that policy changes were in order. Strikes by unions affiliated with the ruling party would be a sign that the difficulties plaguing the system were too complex to handle in traditional, behind-the-scenes negotiations. [redacted]

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Disorganization in labor's hierarchy also would complicate continued union cooperation with the government. Fidel Velazquez remains in undisputed control of labor, but his health is uncertain. His death could cast the labor movement into disarray because potential successors lack his influence. [redacted]

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